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IN THIS ISSUE:

Testimony—

Testimony by Deputy Assistant Secretary of Agriculture J. Dawson Ahalt before the House Committee on Government Operations, Subcommittee on Government Information, Justice and Agriculture, July 11.

Testimony by Deputy Assistant Secretary of Agriculture John W. Bode before the Senate Agriculture Committee's Subcommittee on Nutrition, July 12.

News Releases—

USDA Proposes Greater Use of Animal Import Center

USDA Rescinds Interim Rule on Horse Imports

USDA and 3 Firms Sign Agreements on Gene Engineering Against Poultry Disease

USDA Offers Special "Harvest for Pik" Cotton Loans

USDA Revises Country, Commodity Public Law 480 Allocations

Income Audits Find Misreporting on School Lunch Applications

USDA Reports Court Actions on Meat Act Violations In Three States

Flue-Cured Market Openings Delayed a Week

USDA Issues First Conditional Licenses for Veterinary Biologics

Testimony

U.S. Department of Agriculture • Office of Governmental and Public Affairs

Testimony by Deputy Assistant Secretary of Agriculture J. Dawson Ahalt before the House Committee on Government Operations, Subcommittee on Government Information, Justice and Agriculture, July 11.

Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear before you to discuss the costs and the administration of the provisions of the 1981 Agriculture and Food Act. We share this subcommittee's concern over the rapid escalation in commodity program costs and the lack of progress in resolving the issues facing agriculture.

Before we look at the reasons program expenditures have risen, let's first review the costs of the major commodity programs since the 1981 farm bill was passed. Net outlays in FY 1982 reached $11.6 billion, nearly three times the FY 1981 level. Most of the FY 1982 expenditures reflect 1981 crop activity, and the major program provisions were announced in 1980 by the previous administration.

In FY 1983 we currently estimate that outlays for commodity programs will total $21.1 billion. This sharp upsurge reflects the higher target prices and minimum loan rates mandated by the 1981 Agricultural and Food Act which when coupled with a massive global supply-demand imbalance that depressed commodity prices, made the commodity loan programs much more attractive relative to the market. At the same time the dairy program continued out of control due to price support levels set by the 1977 act.

These budget costs need to be put into proper perspective. During FY 1982 and FY 1983 combined net lending will account for almost half of total CCC outlays. These expenditures are potentially recoverable, minus any loans used for PIK entitlements, assuming market prices rise and producers repay their loans. In contrast, during the previous 10 years from FY 1972 through FY 1981, net lending or recoverable outlays accounted for less than a tenth of total CCC outlays. The rest were direct payments that are nonrecoverable.

There are other ways to analyze program outlays in context with the times. One is to adjust for inflation. Adjusting with the GNP deflator, CCC outlays totaled $15.5 billion in FY 1982 and FY 1983 combined, compared with a total of $21.6 billion in the previous 10 years.

Another useful comparison is the level of CCC direct payments and net lending relative to the value of crop commodities marketed. In FY 1982 this ratio stood at 21 percent, about the same peak level reached some two decades earlier.

Viewed in perspective, while these costs are not as large as they initially appear, they are still too high. We need to work on reducing the level of expenditures in agriculture on all fronts or risk losing the programs altogether. To help understand why costs for price support programs have risen, let's review the fundamental factors currently confronting agriculture:

— The global recession of the last two years has cut real economic growth rates in half in the major markets for U.S. commodities and reduced buying of U.S. farm products.

— The rising debt and the financial collapse in a number of middle income countries such as Poland and Mexico sharply curtailed purchases of U.S. farm products.

— The increasing strength of the dollar—up 20 percent on average the last two years—has made U.S. farm products more expensive to foreign purchasers despite lower U.S. domestic prices.

— Rising U. S. price supports, exacerbated by a strong dollar, have discouraged foreign buying while encouraging our export competitors to expand grain output—about 6 percent over the last two years—in the face of mounting commodity stocks.

— The 1980 embargo to the Soviet Union cut the U.S. share of grain exports to that market from 70 percent to currently about a fifth.

— The European Communities' use of $8 billion in export subsidies has allowed them to become the world's second largest exporter of agricultural products. Additional protective trade practices in other countries have also hurt U.S. agricultural exports.

— An acceleration of crop yields, especially in this country and also in other parts of the world, has boosted crop output in the face of weakening demand.

These factors combined have caused U.S. agricultural exports to decline, commodity stocks to build and prices to fall. With commodity prices depressed, loan and reserve activity has accelerated, increasing CCC outlays and delaying repayments.

As these problems began to unfold, the administration moved to modify program provisions to accommodate these changes. The 1982 crop programs included provisions for an acreage reduction program. The farmer owned reserve rules were modified to encourage program participation to try to improve the overall supply-demand picture. By the fall of 1982, it was obvious that the traditional program tools could not deal with the massive supply-demand imbalance facing agricultural markets. With this problem in mind, the secretary began meeting with agricultural leaders, members of the Congress and others to seek a solution to what was becoming the most serious problem confronting agriculture in several decades. Out of these meetings strong support developed for a payment-in-kind diversion program.

USDA moved quickly to implement the PIK program in 1983. It has turned out to be the largest acreage diversion program in history. We are optimistic the PIK program will significantly reduce the excessive carryover stocks, especially for the spring-planted crops. However, program effectiveness continues to be highly sensitive to weather patterns and continued improvement in crop yields.

Some have argued that finer tuning would have reduced the magnitude of the current excess supply problems. Our analyses do not support that conclusion. An additional 5 percent paid diversion program in 1981 and 1982 would have reduced wheat production only about 100 million bushels for both years combined and lowered carryover stocks only about 6 percent in 1982. We agree that some changes could have been made in the way some programs were designed and perhaps administered in the past. Twenty-twenty hindsight always helps. We are currently contemplating some changes for the 1984 programs, based on what we have learned the last several years. Program administration can always be improved but we should not mislead ourselves or farmers. Such actions will not resolve the fundamental problems that agriculture faces.

While the basic provisions of the 1981 act were designed to be market oriented, they contain rigidities in price support levels and

escalators in income supports that limited flexibilty. During deliberations on the Agriculture and Food Act of 1981, the events of the 1970's were fresh in everyone's mind. In hindsight, too much so. One of the major shortcomings of farm policy has been our tendency to allow the current situation or recent events to dictate policies for the longer term. As we reexamine agricultural programs and policies, we must not allow current conditions to overshadow the realities of the future.

There is no stronger example than the 1981 experience. We had just come through a period of major expansion in the export earnings of the U.S. agricultural sector. It was widely believed that the United States was the only country that could produce enough food to satisfy the world's needs. Events of the 1970's such as inflation, high and rising world oil prices and a weak dollar were taken as precursors of things to come and forecasts of continued strong export demand, rising production costs, and expanding output seemed reasonable.

We all knew that there would be times when we would move off trend, due in large part to the international influence on the farm economy. While greater volatility was a reasonable expectation in an expanding world agricultural system, we were not prepared for the events that began unfolding in 1981 and have continued through the present. Simply put, we failed to give farm programs the flexibility to adjust to a changing environment.

During the debate over the 1981 farm legislation, there were grave concerns over entitlement programs, such as farm price supports, which would index support levels into a position of making the U.S. less competitive in world markets. When Congress passed the 1981 act, it mandated higher minimum loan rates that were to apply for four crop years. For wheat and corn, loan rates were increased by 11 percent and 6 percent respectively from the levels prevailing for the 1981 crop programs. The 1981 act also mandated yearly increases of 4 to 5 percent in target prices. At the time these actions seemed to represent a reasonable compromise of concerns and expectations. In 1981 inflation was running nearly 3 times the rate of increase in mandated target prices, and even the most optimistic forecasts had production costs continuing to rise as rapidly as target prices.

The crystal ball was wrong. Our price support levels for some commodities have now become higher than market-clearing levels. Our fear of indexing our way out of world markets has become a reality to a certain extent for some commodities. International developments and the inflexibility in farm policy have led to an incentive to produce beyond market demand while the U.S. was becoming increasingly less competitive in world markets. The result was a buildup of stocks far beyond reasonable needs, declining farm prices and sharply increasing budget outlays.

In a market-oriented agriculture, the loan rate cannot be allowed to interfere with the market or be the market price. With production costs stabilizing or declining in some cases, inflation reduced, and the dollar strengthening internationally, the rigid programs we thought so appropriate only a few years ago are now threatening the economic viability of U.S. agriculture in the international marketplace and causing large budgetary outlays.

While, unfortunately, the solutions to a number of the international problems are beyond our grasp, the administration has taken a number of steps to bring farm programs back in tune with the economic realities:

— The payment-in-kind program has provided a record of acreage adjustment. At the same time, it will maintain market supplies by drawing down stocks and let the world know we are no longer going to forfeit our foreign markets and store commodities in unlimited quantities.

— Export enhancement programs have been sharply expanded to confront the realities of the marketplace. We have made available over $5 billion for export credit programs in FY 1983.

— Wheat flour sales to Egypt were subsidized to compete for that important market.

— The administration is working with the Congress to develop legislation to freeze target prices which will reduce outlays $3.6 billion over the next three fiscal years.

— In cooperation with Congress, the administration is seeking new dairy legislation to reduce the excess production incentives and limit budget outlays.

— The secretary of agriculture is giving serious consideration to lowering loan rates consistent with authorities provided in the legislation so we can become more competitive in world markets.

— Administration officials have recently been meeting with Soviet Union representatives in an effort to renegotiate a new long-term grain agreement.

Finally, the secretary of agriculture has scheduled a farm summit this week to review the nation's farm policies in the context of the realities of the marketplace. It is vital that we maintain an open and constructive dialogue with all facets of the agricultural industry at this point in time. Agriculture is too important to permit it to languish under a set of programs, policies and perceptions which were more appropriate for another era.

Thank you, Mr. Chairman. I would be happy to answer any questions you may have.

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Testimony by Deputy Assistant Secretary of Agriculture John W. Bode before the Senate Agriculture Committee's Subcommittee on Nutrition, July 12.

Thank you, Mr. Chairman, for today's opportunity to testify about the Reagan Administration's commodity distribution activities. Although our recent efforts have been intensive, the department has a long history of involvement in commodity distribution dating back to the days prior to the establishment of the food stamp program. This history of experience has prepared the department to effectively implement President Reagan's special initiative in food distribution as well as the requirements of P.L. 98-8, the "Jobs Bill".

Before commenting about these food distribution efforts, I want to point out that commodity distribution is only one part of a large total effort to meet the food needs of low-income Americans. The administration is very concerned about the nutritional well-being of those Americans who are unable to provide an adequate diet for themselves. We now have in place an impressive array of food assistance programs, responsible for the subsidy—in part or whole—of

some 95 million meals a day. With such a large commitment by the federal government already established, alterations in food distribution programs must be carefully considered to avoid waste and redundancy.

Current Feeding Programs

The primary vehicle for providing food assistance to low-income people in the United States is the food stamp program. Today it reaches approximately 22 million people almost one American in ten—at a monthly cost of about $1 billion. Expenditures for this program (excluding Puerto Rico) have increased from $8.3 billion in 1980 to an estimated $12 billion this year. This is approximately $900 million more than was spent in 1982. Any family of four with an income of $12,876 or less is eligible for food stamps if its resources or assets are under established limits. The amount of food coupons provided per household is based on the thrifty food plan, a low cost, nutritious diet devised by the department, and on the net income of the household by household size.

The food stamp program is responsive to people in need of food assistance quickly. Eligible applicants may receive benefits five days from application in emergency situations. The program is also the first line of defense against hunger.

Another program responding to those in need is the special supplemental food program for women, infants and children. Funding for WIC has grown dramatically in recent years. Since fiscal 1980, when $712 million was spent, funding has grown by more than 60% to this year's level of $1.16 billion. Currently, about 2.4 million low-income women, infants and children receive benefits from this program. About twenty percent of the babies born in the United States this year will be participants in the WIC program. Another program which serves the same sort of population as WIC, the commodity supplemental food program, has likewise grown significantly during the past year.

When considering the need for commodity distribution, we must not forget that our child nutrition programs continue to meet the nutritional needs of children. Every school day, the school lunch program provides full reimbursement for more than 10 million meals and partial support for meals served to another 13 million school children. This year we will spend about $3.6 billion for child nutrition,

including the school breakfast program and meals served in day care centers and at summer feeding sites.

We must not forget that there are programs, administered by the Department of Health and Human Services, which are designed to serve the elderly. USDA provides commodity and cash support to these programs, which serve meals to older Americans at congregate feeding locations and to those who are homebound.

To support and supplement this structure of feeding programs we have a large food distribution network. This year we will distribute about 2.1 billion pounds of food valued at more that $1.7 billion to various outlets which include schools, charitable institutions, child care centers, elderly nutrition programs, camps and Indian reservations.

The commodities we provide will be acquired under price-support activities and through market interventions to remove surpluses. In addition, some purchases will be made strictly to meet the preferences expressed by school food service officials.

These traditional commodity distribution efforts recently were augmented by the administration's special commodity distribution, initiated Dec. 22, 1981 by President Reagan, and by subsequent appropriations in the "Jobs Bill". The scope of these efforts must necessarily be bounded by the availability of commodities and by our ability to deliver available items to needy individuals without adversely affecting the farmer-to-consumer food chain.

Every food commodity that the U.S. Department of Agriculture holds in uncommitted inventories is presently being distributed for household consumption. These commodities are cheese, butter, nonfat dry milk, rice, corn meal and honey. The department has also included in these distribution activities some flour. While USDA does acquire a wide variety of fruits, vegetables, meats and poultry through market intervention to remove surpluses, these purchases are largely earmarked for specific food donation programs for schools and other outlets and are supported by specific appropriations.

Clearly, the department is not "sitting on" enormous quantities and varieties of foods which some have suggested could quickly and simply be put into the hands of low-income Americans. We are already acting, through the special commodity distribution program and through P.L. 98-8 to move quantities of commodities into the hands of traditional

outlets, including schools and charitable institutions, and non-traditional outlets, including soup kitchens and food banks.

Another consideration in the expansion of food distribution activity is the health of the farmer-to-consumer food chain. Dairy products are a case in point.

The department's Economic Research Service regularly monitors the dairy marketing and production situation in the United States. It analyses and reports information on production of cheese and butter and other products, as well as imports, exports, and government activities, including acquisitions and distribution. Through this analysis, the department can monitor the amount of cheese which is leaving wholesale channels for commercial uses.

We know that, over the past several years, cheese consumption of all types in the United States has been increasing. However, commercial disappearance (an estimate of final sales) of American cheeses has declined over the past two quarters, reversing an upward trend. Commercial sales of American cheeses in the fourth quarter of 1982 declined by 5.1% from a year earlier. In the first quarter of 1983, commercial sales declined from the same period a year earlier by more than 15 percent.

These declines in commercial sales coincided with significant increases in distribution of cheese through the department's special commodity distribution program. During the third quarter of 1982, monthly distribution of cheese by the department averaged approximatley 10 million pounds. By the first quarter of 1983, monthly distribution of cheese averaged more than 40 million pounds.

It is very difficult to attribute the decline of American cheese sales to any other factor than the special commodity distribution program. We are convinced that displacement has occurred as a result of the special distribution program. In response to this problem, we have stabilized the distribution levels at about 25 to 35 million pounds of cheese per month for the remainder of fiscal 1983. Concurrently, we have begun the distribution of non-fat dry milk, flour, rice, corn meal and honey, thereby broadening the range of foods for home consumption.

Had displacement been the only concern, we might have stabilized the program at a lower level of distribution, but we are committed to

maintaining the program at a level which provides added food assistance to low-income people during this period of economic re-adjustment. At the same time, we must be careful that we do not interfere with the dairy price support system.

Current Efforts

Consistent with the spirit and intent of P.L. 98-8 we quickly published regulations and notified the states of commodity availability, and we believe that we are doing an effective job of distributing commodities to households and institutions under the "Jobs Bill." States have submitted orders for delivery of all foods which will be available to them.

The administrative funding mechanism we have established under the "Jobs Bill" appears to be responsive to state requests. These funds are allocated to the states based on a formula giving primary consideration to the number of low-income and unemployed persons in each state.

You will recall the department has consistently held the position that administrative funding of the program is not necessary. Prior to enactment of the "Jobs Bill", the federal government was paying an average of 97 percent of the total cost of the special dairy program. State and local agencies' distributions were a large success. In fact, during March of 1983, we were unable to fill all states' requests for commodities. We continue to believe that further administrative funding is unnecessary.

The department can and will adequately respond to existing commodity needs within the secretary's discretionary authority. This is true for both major areas covered by P.L. 98-8. We are proud that donations of perishable commodities to charitable institutions grew from $15 million in fiscal 1982 to an expected $51.3 million in fiscal 1983 under the secretary's discretionary authority. Charitable institutions include soup kitchens and cooperative emergency feeding facilities. Likewise, donations to households grew from $189.5 million in fiscal 1982 to $542 million through the first seven months of fiscal 1983.

We believe, Mr. Chairman, that our record of distributing commodities under discretionary authority is a good one and that we

can meet the need for processing and distributing surplus commodity stocks through the exercise of existing discretionary authority.

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News Releases

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USDA PROPOSES GREATER USE OF ANIMAL IMPORT CENTER

WASHINGTON, July 11—The U.S. Department of Agriculture has proposed allowing livestock importers to bring additional cattle into the Harry S Truman Animal Import Center at Key West, Fla., if quarantine space still is available after the lottery prescribed by federal regulations.

John K. Atwell, deputy administrator of USDA's Animal and Plant Health Inspection Service, said the proposal sets a procedure, previously not in the regulations, whereby importers could request additional space.

Under the procedure, if there is unused capacity and time to arrange for importing additional cattle, the USDA agency may authorize an additional drawing. Applicants with allocated space are the only importers allowed to participate.

"The lottery gives importers an opportunity for use of the Harry S Truman Animal Import Center, provided they submit applications and make the required deposits," Atwell said. "However, if we still have unused capacity, we want to assure importers the chance of using it."

The Harry S Truman Animal Import Center is a specially constructed high security USDA facility that permits cattle to be imported safely from countries where certain foreign livestock diseases, such as foot-and-mouth disease, are known to exist. Cattle must pass a 90-day quarantine at the center after a rigorous pre-clearance procedure in the country of origin.

Public comments on this proposal should be submitted by July 15 to T.O. Gessel, director, regulatory coordination staff, APHIS, USDA, Room 728, Federal Building, 6505 Belcrest Rd., Hyattsville, Md. 20782.

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USDA RESCINDS INTERIM RULE ON HORSE IMPORTS

WASHINGTON, July 11—The U.S. Department of Agriculture has rescinded a regulation that required horses from South or Central America to be quarantined only at Newburgh, N.Y.; Miami, Fla., and Honolulu, Hawaii, where USDA operates animal import centers.

John K. Atwell, deputy administrator of USDA's Animal and Plant Health Inspection Service, said the action restores regulations that permit these horses to be quarantined at private facilities at U.S. Customs Service international air or ocean ports, provided the facilities meet USDA criteria and USDA veterinarians are available to supervise the quarantine.

According to Atwell, quarantine restrictions were imposed Jan. 7 on South and Central American horses because USDA did not have enough personnel to supervise quarantines at private facilities.

"We were particularly concerned about South and Central American horses because of possible exposure to Venezuelan equine encephalitis, which is spread by biting insects," Atwell said. "Such horses must be kept in insect-proof facilities throughout the quarantine."

Atwell said restrictions are being removed because there may be occasions when USDA has the necessary staff. On most occasions, however, South and Central American horses will be kept at USDA facilities.

The action also changes the listing of ports of entry where USDA maintains animal import facilities. San Francisco and Los Angeles were deleted as ports of entry for horses. Government operated facilities are not yet available at those locations.

Other minor changes are also being made to the USDA animal import regulations in this action is scheduled for publication in the July 13 Federal Register.

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USDA AND 3 FIRMS SIGN AGREEMENTS ON GENE ENGINEERING AGAINST POULTRY DISEASE

BELTSVILLE, Md., July 11—Genetically engineered proteins, required as a first step in devising a potential vaccine against a serious

disease of poultry, will be produced by three companies under an agreement with the U.S. Department of Agriculture.

Harry D. Danforth, microbiologist with USDA's Agricultural Research Service, said today the joint venture's goal is to develop a broad-range vaccine against coccidiosis.

Danforth said this parasitic intestinal disease annually costs the U.S. poultry industry more than $150 million in direct losses and about $100 million for anticoccidial drugs.

Joining USDA in the agreement are Hoffman-La Roche, Inc., Nutley, N.J.; Genex Corp., Rockville, Md.; and Vineland Laboratories, an affiliate of ImmunoGenetics, Inc., Vineland, N.J.

Under the agreement, proteins called antigens will be produced by use of monoclonal antibodies furnished by USDA's research agency.

Researchers of the USDA agency are producing these antibodies via the hybridoma technique wherein spleen cells from mice inoculated with the coccidial parasite are fused with mouse cancer cells grown in cell cultures.

Fused cells resulting from this biotechnology not only possess the immortality of cancer cells but also manufacture identical anitbodies that react with specific forms of chicken coccidiosis, Danforth said.

Danforth and his colleagues at the Poultry Parasitic Diseases Laboratory here have produced monoclonal anitbodies against several species of coccidiosis. Their work, reported last year at a meeting of the Poultry Science Association, was considered the first step in formulating a vaccine against the disease.

The agreements to produce the anitbodies were executed here on June 29 by William H. Tallent, administrator for the USDA research agency's northeast region; L. Patrick Gage for Hoffman-La Roche; Joseph G. Perpich for Genex Corporation; and John F. Bradley for Vineland Laboratories.

All three companies in the project had responded to a government request for proposals published in Commerce Business Daily, Danforth said. Each agreement, or memorandum of understanding, defines procedures of USDA-industry cooperation.

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USDA OFFERS SPECIAL "HARVEST FOR PIK" COTTON LOANS

WASHINGTON, July 11—The U.S. Department of Agriculture will offer special "Harvest for PIK" loans to cotton farmers who do not have enough upland cotton under CCC loan to satisfy their PIK requirements, Everett Rank, executive vice president of the Commodity Credit Corporation, announced today.

Rank said a special procedure will be available for those producers who are required to harvest 1983 cotton for PIK but do not want a regular loan. Two options are available at the time the loan is made: the producer may receive the PIK cotton immediately and the proceeds from sale of cotton to CCC after the PIK availability date, or receive the proceeds immediately and the PIK cotton after the PIK availablity date.

CCC will pay warehouse storage charges through the date the producer redeems his loan to satisfy his PIK requirements unless the producer elects not to pay the loan service fee.

"With this procedure," Rank said, "producers will be permitted to obtain their PIK commodities before the PIK availability date but will not receive payment for 1983-crop cotton sold to CCC to satisfy PIK requirements until the PIK availability date."

Rank said CCC also will offer to purchase cotton that has been ginned but has not been classed and is not stored in an approved warehouse. In this instance, the purchase price will be based on the 1983 loan rate for the base PIK quality for the area where PIK was earned. The cotton purchased by CCC will be used to satisfy the producers' PIK on a pound-for-pound basis.

Rank said producers should contact their local Agricultural Stabilization and Conservation Service office for further details on their loans, which will be available soon.

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USDA REVISES COUNTRY, COMMODITY PUBLIC LAW 480 ALLOCATIONS

WASHINGTON, July 11—The U.S. Department of Agriculture today revised Public Law 480 commodity and concessional sales allocations to foreign countries for fiscal 1983.

The allocation for Ghana was withdrawn and reallocated. Increased country allocations were made for Bolivia, the Dominican Republic, Indonesia, Madagascar, Peru and Tunisia, and some minor quantity changes were made in some countries. Also, funds previously identified as an unallocated reserve were allocated.

Under Secretary of Agriculture Daniel Amstutz said current program plans under Titles I and III of P.L. 480 provide for distribution of $788.5 million in planned commodity shipments. The plan allocates all of the presently available funds.

Shipments of food under the Titles I and III program now are expected to total about 4.2 million metric tons (grain equivalent). Eighty percent of the planned food aid shipments have been allocated to countries where the annual per capita income is $795 or less, which is the poverty level established by the International Development Association.

Amstutz said 17 percent of the approved level is to finance Food for Development programs under Title III.

Among other factors, Amstutz said, the program takes into account variations in commodity and budget availabilities in the United States and in participating countries; changing economic and foreign policy situations; potential for market development; fluctuations in commodity prices; availability of handling, storage and distribution facilities; and possible disincentives to local production.

Except for agreements already signed, the country and commodity allocations announced do not represent final U.S. government commitments. Each program still must be reviewed, approved and negotiated with individual recipient countries before final U.S. government agreements are signed, Amstutz said.

Title I of P.L. 480 is a concessional sales program designed to promote exports of agricultural commodities from the United States and to foster economic development in recipient countries. The program

provides loans of up to 40 years, with a grace period of up to 10 years and low interest rates.

Title III provides for the forgiveness of the debt incurred under Title I, based on accomplishments in food for development programs and projects agreed upon by the United States and recipient countries.

Additional technical information on the P.L. 480 program is available from Mary Chambliss of USDA's Foreign Agricultural Service, (202) 447-3573.

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INCOME AUDITS FIND MISREPORTING ON SCHOOL LUNCH APPLICATIONS

WASHINGTON, July 12—Almost one-fifth of the sampled households in a U.S. Department of Agriculture pilot study received excess school meal benefits for their children, according to a USDA report released today.

Assistant Secretary of Agriculture Mary C. Jarratt said misreporting household income by an average of $88 accounted for 93 percent of excess benefits awarded.

The study is the second report from the first year of the school lunch income verification pilot project, a two-year study mandated by Congress in the Omnibus Budget Reconciliation Act of 1981.

The findings are based on in-home audits of 741 applicants for school meal benefits in 54 schools in nine school districts across the country during school year 1981-82. While this particular study was not nationally representative, the results held true for every school district examined. Jarratt said two other USDA studies, both nationally representative, show even greater evidence of understated income on meal applications.

"These findings of underreported income in order to qualify for higher benefits make a compelling case for the verification of reported income on a selected portion of the meal applications," Jarratt said.

"The study clearly shows the need for the madatory minimum income verification requirement which is in effect for this fall," she added.

Starting in the 1983-84 school year, schools will be required to verify the income information on a small sample of applications submitted for free and reduced-price meals.

"The study gives schools an error-prone profile to use in this effort—a quick and effective screening device for choosing a sample likely to contain fraudulent applications," Jarratt said.

School officials can use the profile to identify high-risk applicants by looking at information routinely submitted on the application. Applications selected by the profile are four times as likely to contain errors which would affect eligibility status as those selected randomly, the study showed.

The initial report on the school lunch income verification pilot project was issued in February. It showed that the USDA meal application form used since 1981, a form which requires social security numbers of adult household members, was successful in deterring some income misreporting.

The second phase of the income verification test ran during the 1982-83 school year in more than 120 school districts and tested a range of income documentation and verification techniques used in 60 sites. Results of the second phase now are being evaluated and will be reported to Congress in the fall of 1983.

The National School Lunch program is the largest of the federal school nutrition programs, serving more than 23 million children daily during the school year. About 10 million children receive free lunches and about 1.5 million get reduced-price lunches. Eligibility for free or reduced-price meals is based on Congressionally-mandated income guidelines.

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USDA REPORTS COURT ACTIONS ON MEAT ACT VIOLATIONS IN THREE STATES

WASHINGTON, July 13—Four companies in Pennsylvania, Florida and New Jersey have been sentenced by U.S. district courts in recent weeks for violating the federal meat inspection law, according to U.S. Department of Agriculture officials.

— Pennsylvania: Ray L. Mummert, owner of Eberly's Meat Market, Yoe, Pa., was fined $2,500 and placed on two years probation for selling and transporting meat without USDA inspection. Mummert used an official USDA meat stamp to mark uninspected calf carcasses as federally inspected and passed.

— Florida: The U.S. District Court for the Southern District of Florida fined Leslie Ellzy, owner of L-Z International, Inc., Miami, Fla., $2,000. Ellzy pleaded guilty to knowingly mislabeling and selling beef livers as calf livers. Selling meat products under a false and misleading name with intent to defraud is a felony.

— Florida: Gurrentz, Glickauf and Oppenheimer, Inc., a brokerage firm in West Palm Beach, Fla., pleaded nolo contendere to charges of mislabeling beef livers and was fined $250 in the U.S. District Court for the Western District of Missouri. USDA compliance officers found a shipment of beef livers that had been relabeled as calf livers.

— New Jersey: The U.S. District Court of Newark, N.J., convicted Frank Atanasio, president of Two Counties Dressed Abattoir, on two misdemeanor counts: failure to destroy condemned lamb carcasses and preparation of those carcasses for use as human food. He was sentenced to two years probation and fined $1,000.

USDA inspects meat sold in commerce to ensure that it is wholesome, unadulterated and accurately labeled.

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FLUE-CURED MARKET OPENINGS DELAYED A WEEK

WASHINGTON, July 13—Flue-cured tobacco markets will open on July 27, one week later than originally planned, the U.S. Department of Agriculture announced today.

C.W. McMillan, assistant secretary of agriculture, said opening dates for the 1983 season are delayed because of pending legislation to freeze price supports at the 1982 level.

Under the revised schedule, markets openings will be: July 27, Area A (Georgia-Florida;) Aug. 2, Area B (South Carolina-Border North Carolina); Aug. 3, Area C, (Eastern and Southern Middle Belt, North

Carolina); Aug. 8, Area D, (Northern Middle Belt Markets); Aug. 15, Area E, (North Carolina-Virginia Old Belt Markets).

Announcing the delay now, McMillan said, will give industry more time for orderly changes in season planning and timely placement of personnel. The possibility of a delay, he said, was anticipated and recommended at the June 24 meeting of the Flue-Cured Tobacco Advisory Committee, at which opening dates were originally set.

McMillan said a survey of the tobacco producing area indicates that a marketing delay this season will not adversely affect most producers because an unusually cool spring has resulted in a late maturing crop. A few farmers in the old belt said they would be inconvenienced by the action.

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USDA ISSUES FIRST CONDITIONAL LICENSES FOR VETERINARY BIOLOGICS

WASHINGTON, July 15—U.S. Department of Agriculture officials have conditionally licensed vaccines to control vesicular stomatitis and avian reovirus.

These are the first veterinary biological products to be marketed under new authorization for limited or emergency use, according to Dr. David A. Espeseth, a senior staff veterinarian with USDA's Animal and Plant Health Inspection Service.

USDA granted conditional licenses for vesicular stomatitis vaccines to Colorado Serum Co., Denver, Colo., and to Syntex Laboratories, Des Moines, Iowa; and licensed Nerieux Laboratories, Athens, Ga., to produce avian reovirus vaccine.

"On the basis of the outlines of production and the work done thus far, these products show promise and are authorized within prescribed limitations," Espeseth said.

Vesicular stomatitis is an insect-borne viral disease of livestock that increased sharply in 14 western states last summer and fall. Officials are concerned that the disease may spread again this summer with the increase in insect vectors.

Avian reovirus is a malabsorption syndrome that is affecting poultry breeding operations in the Southeast. Although closely related to tenosynovitis, the disease has not responded satisfactorily to treatment with existing biologics, Espeseth said.

"Animal health officials are also concerned because vesicular stomatitis' clinical symptoms are virtually indistinguishable from foot-and-mouth disease," Espeseth said. "Every vesicular stomatitis outbreak requires careful diagnosis to assure that we have no undetected introduction of foot-and-mouth, which does not currently exist in this country."

There is a serious and immediate need for protection against these diseases, he said. License conditions will assure protection for users and set a one-year limit on the license validity.

In addition to a one-year limit, each license is based on promising research and development. Each producer has submitted an approved outline of production, and has developed studies, now in progress, to demonstrate the product's effectiveness within the licensing period.

These vaccines may be used only in states where animal health officials have requested them.

Under the Virus-Serum-Toxin Act of 1913, all veterinary biologics, such as vaccines, bacterins, antigens and toxins, must be licensed by USDA if they are distributed in interstate trade. Biologics manufacturers must also obtain establishment licenses that require high standards of operations, sanitation, quality control and record keeping.

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